ANALYSIS OF FINANCIAL PERFORMANCE PRE AND POST INITIAL PUBLIC OFFERING (IPO) AT BANK CENTRAL ASIA TBK

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ABSTRACT

Several banks took a policy to go public or initiate initial public offering policy (IPO) in order to gain access to capital. This capital surplus is very useful for banks expansion to increase their performance and support their operation and lower the risk of going bankrupt. In its process, banks must prepare prospectus to fulfil the requirement before going public. Prospectus contains accounting information and non-accounting information from companies who want to go public. These kinds of information are very useful to analyze the soundness of the bank and help bank to gain new investors and public confidence. The objective of this research is to compare pre and post of IPO at Bank Central Asia Tbk. by analyzing financial performance ratios through CAMEL ratios. Theories supporting this research are financial management and financial statement. The population is financial data with sample of data is year 1998 to 2002 with May, 2000 as IPO year. This research uses two years before IPO and two years after IPO and is analyzed with paired sample analysis. Result and conclusion are there is a significant difference of company financial performance pre and post IPO and that IPO of Bank Central Asia, Tbk. gives a significant difference on company financial performance.

Keywords: *financial performance, pre ipo, post ipo, financial ratio, paired sample analysis*

INTRODUCTION

Research Background

Indonesian economy was hit by economic crisis that affected financial sector included banking industry in 1997-1998. Economic crisis has directly affected banking performance. This situation forced central bank of Indonesia, in this case Indonesian Bank, to suspend 16 commercial banks on November 1, 1997. Central bank of Indonesia also liquidated 38 banks on March 13, 1999 (Nurazi and Evans, 2005). According to Hadad (1999), five major factors that can describe the weaknesses of banking industry system and give impact to the 1997-1998 economic crisis in Indonesia are: (1) the guarantee from the central bank that banks should not be allowed to fail to prevent failure systemic risk led the bank owners and management to less caution in giving credits to high risk sectors; (2) Ineffective supervision by the central bank led banks to ignore precautionary principle running their operation; (3) Increasing risk of non-performing loans of commercial banks caused by concentrated sizeable loans to individuals or business group; (4) Low skills in banking management led to increasing of risk and weakening in productive asset quality and (5) low accuracy in the analysis of banks financial performance caused by lack of transparent information on bank condition.

Central bank of Indonesia issued a policy to recapitalize banking industry through its capital structure in 1999. This policy was intended to increase banks performance to maximize their operation. Central bank of Indonesia also issued a policy to guarantee the liabilities of commercial banks. This policy was intended to increase public confidence to stabilize financial sector in this case banking industry. In bank recapitalization policy, banks operated in Indonesia except for foreign banks and mixed banks have to follow the requirement of 'fit and proper test' which obligate bank's shareholders or new investors to increase their capital as much as 20% minimum to reach standard capital adequacy ratio as much as 4%. In other words, central bank of Indonesia increases bank's capital adequacy to minimize the risk of banks goes bankrupt. Several banks took a policy to go public or initiate initial public offering policy (IPO) in order to gain access to capital. This capital surplus is very useful for banks expansion to increase their performance and support their operation and lower the risk of going bankrupt. In its process, banks must prepare prospectus[1] to fulfil the requirement before going public. Prospectus contains accounting information and non-accounting information from companies who want to go public. These kinds of information are very useful to analyze the soundness of the bank and help the bank to gain new investors and public confidence.

Bank Central Asia Tbk. is one of Indonesia banks that go public since May 31, 2000. There are some changes happened after Bank Central Asia Tbk. go public. When the bank is doing IPO or initial public offering or goes public, it directly impacts financial growth of the bank itself. This financial growth can be measured through bank performance and it can be assessed through bank's financial report. Based on financial report, this research calculates number of ratio to be the basic for bank's performance appraisal. The objective of this ratio analysis is to evaluate the strength and weaknesses of the bank and also to analyze financial performance before and after the bank go public.

Most of the studies about initial public offering are concentrating on manufacture companies and banking industries that are listed in Indonesian Stock Exchange periodically, although little have been documented and studied about one particular company or bank. Therefore, this reason motivates the researcher to make a further research about IPO (Initial Public Offering) especially by indentifying the financial ratios through CAMEL ratios. According to Nurazi and Evans (2005), CAMEL ratios are statistically significant to evaluate financial performance and become an effective tool to measure possible bank failure. This is relevant with the policy set by central bank of Indonesia about measuring the soundness of a bank using CAMEL ratios (Regulation of Bank Indonesia No. 6/10/PBI/2004). Finally, financial performance ratios (CAMEL) will measure the IPO by comparing pre and post Initial Public Offering of Bank Central Asia, Tbk.

Research Objective

This research will compare pre and post of IPO on Bank Central Asia, Tbk. by analyzing financial performance ratios through CAMEL ratios using CAR (Capital Adequacy Ratio), NPL ratio (Non Performing Loan), ROA (Return on Asset), ROE (Return on Equity), Operating Expense to Operating Income, NIM ratio (Net Interest Margin), and LDR (Loan to Deposit Ratio).

THEORETICAL FRAMEWORK

Theories

Financial Management

Financial management is a concern of maintenance and creation of economic value or wealth. As such will deal with financial decision such as when to introduce a new product, when to invest a new asset, when to replace existing asset, when to borrow from banks, when to issue stocks or bonds, when to extend credit to a customer, and how much cash to maintain (Keown, 2005 : 4).

Financial Statement

There are three basic of financial statement: balance sheet; income statement and cash flow statement (Lonergan, 1995). A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. For a business enterprise, all the relevant financial information presented in a structured manner and in a form easy to understand, is called the financial statements. They typically include four basic financial statements, accompanied by a management discussion and analysis: Statement of Financial Position: also referred to as a balance sheet, reports on a company's asset, liabilities, and ownership equity at a given point in time; Statement of Comprehensive Income: also referred to as Profit and Loss statement, reports on a company's income, expenses, and profits over a period of time (Keown, 2005 : 49).

[1] Prospectus is one of the requirements set by the Indonesia Market Supervisory Agency (BAPEPAM) to companies who are going public.

CAMEL Ratio

CAMEL rating system can be described as follows:

- Capital: Capital Adequacy Ratio (CAR). Capital adequacy ratio is the ratio that determines the capacity of the bank in terms of meeting the time liabilities and other risks such as credit risk, operational risk, etc. (Rose and Hudgins, 2008: 475).

  Capital Adequacy Ratio can be formulated mathematically as follows:

$$\text{CAR} = \frac{\text{Own Capital}}{\text{Risk Weighted Asset}}$$

- Assets: Non-Performing Loan (NPL). Non Performing Loan is defined as the risk associated with the possibility of failure to pay its obligations or risk clients where debtor cannot repay their debts (Rose and Hudgins, 2008: 207). The formula used to measure the Non Performing Loan is as follows:

$$\text{Non Performing Loan} = \frac{\text{Credit}}{\text{Total Loan Collectability}}$$

- Management: Net Interest Margin (NIM). Net interest margin (NIM) is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) asset (Rose and Hudgins, 2008: 215). The formula to measure Net Interest Margin Ratio is:

$$\text{Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Average Earning Asset}}$$

- Earnings: Return on Asset (ROA), Return on Equity (ROE), and Operating Expenses to Operating Income (OEOI). The return on asset (ROA) percentage shows how profitable a company's asset are in generating revenue. ROE is equal to a fiscal year's net income (after preferred stock dividends but before common stock dividends) divided by total equity (excluding preferred shares), expressed as a percentage. Operating costs is the cost incurred by the bank in order to run its main business activity such as interest costs, marketing costs, labor costs and other operating expenses. Operating income is the bank's main operating revenue that is the revenue earned from the placement of funds in the form of loans and other operating income (Rose and Hudgins, 2008: 167-168). ROA, ROE, and OEOI can be computed as follows:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{ROE} = \frac{\text{Net Income}}{\text{Total Equity}}$$

$$\text{Operating Expenses to Operating Income} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}}$$

- Liquidity: Loan to Deposit Ratio (LDR). LDR ratio is used to determine number of the amount of loans that given by the bank versus the amount of funds received by the bank from the depositors (Rose and Hudgins, 2008: 363). Loan to Deposit Ratio can be formulated mathematically as follows

$$\text{LDR} = \frac{\text{Total Outstanding Credit}}{\text{Loan Collectability}}$$

Previous Research

Nurazi and Evans (2005) found that CAMEL ratios which consist of CAR (capital adequacy ratio), RORA (assets quality), ROA (management), OECI (earnings), CBTD (liquidity), and LGBS (bank size) are very useful to identify, explain, and solve bank failure. Hasan and Waisman (2010) found that Israeli companies which go public are less well known to United State's investors and possibly face high expenditure in the future rather than other foreign companies that listed their securities in United States stock exchange. Brau et al. (2003) found that there are four main factors that influence the choice between an initial public offering and a takeover by a publicly traded acquirer which are industry, market-timing, deal-specific, and to a lesser degree demand for funds. Sangmi (2010) found that the analyses of financial performance which consist of five sections: capital adequacy analysis, asset quality analysis, management capability analysis, earnings analysis and liquidity analysis are very important for depositors and shareholders to measure the soundness of both banks.

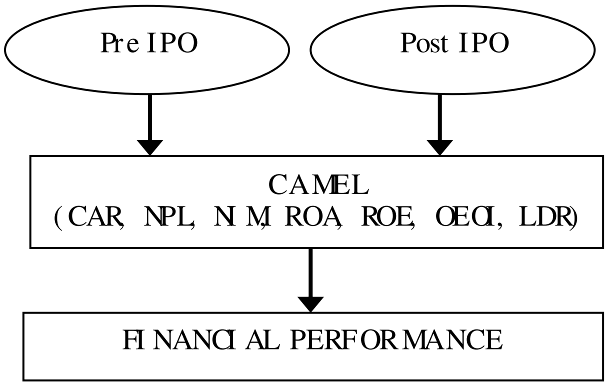

Figure 1. Conceptual Framework

Research Hypothesis

Hypothesis is an estimate or a reference that formulated and accepted for a while that could explain the observed facts or conditions and used as guide for further steps (Good and Scates, 1954)

The hypotheses of this research are:

H_0 : There is no significant difference of company financial performance pre and post IPO

H_1 : There is a significant difference of company financial performance pre and post IPO

RESEARCH METHOD

Source of Data

The data in this research is collected from secondary data. The secondary data were gathered from books, literatures, articles, journals, an all relevant literature from the library and internet. This research uses the information from the financial sector yet the main data that is used in this research is the financial data that is described and reported in the financial statement which reflects the condition of the financial performance.

Financial statement such as the rate of CAR (Capital Adequacy Ratio), NPL (Non Performing Loan), ROA (Return on Asset), ROE (Return on Equity), OECI (Operating Expense to Operating Income), NIM (Net Interest Margin) and LDR (Loan to Deposit Ratio) used by this research to evaluate the financial performance Bank Central Asia, Tbk. All those seven factors become the main data to evaluate the condition of a bank. All those data got from the annual report of Bank Central Asia, Tbk. before and after they go public.

Population and Sample

The population that is used to evaluate the financial performance of Bank Central Asia, Tbk. before and after they go public are all financial data that are needed as variables to determine the condition and describe the financial performance of the bank itself. Specific information of population comes from the seven main factors or variable that is used to evaluate the financial performance. Data from financial ratio consist of Capital

Adequacy Ratio, Non Performing Loan, Return on Asset, Return on Equity, Operating Expense to Operating Income, Net Interest Margin and Loan to Deposit Ratio. The sample of this research also comes from the financial data that described in the financial ratio. The sample of data is taken from year 1998 to 2002, where in May, 2000 the IPO action is taken by Bank Central Asia, Tbk. and as the comparisons; this research uses two years before the IPO and also two years after the IPO.

Operational Definitions and Measurement of Research Variables

The operational definitions of this research consist of the pre IPO condition and post IPO.

- Pre IPO is a condition before the company listed their shares and traded on Indonesia Stock Exchange. Pre IPO is a situation when a company offers shares prior to the firm's initial public offering (Scott, 2003)
- Post IPO is situation where the company has registered its shares to the firm's initial public offering, and investors began to buy the company's shares that are listed on the stock exchange.

Paired Sample Analysis

Paired sample analysis is used to analyze one object with different condition. In this case the object is Bank Central Asia, Tbk. in two different conditions which are; before and after the Initial Public Offering in limit period of 1998 to 2002. This analysis use the SPSS program to evaluate if there is a significant differences of company financial performance pre and post Initial Public Offering of Bank Central Asia, Tbk.

RESULT AND DISCUSSION

Result

The condition of Capital Adequacy Ratio before and after Initial Public Offering was stable around 30% to 35% except in year 1998, Capital Adequacy Ratio was recorded at level -41.78%. This situation caused by the economic crisis that hit Indonesia in 1998. In 1999, the ratio percentage increased to meet standard at level 34.38%. The percentage after Initial Public Offering of Capital Adequacy Ratio as much as 32.64% in 2001 and 32.19% in 2002 reflected a stable progress and meet the standard stated by Central Bank of Indonesia above or more than 8%. Obviously, the Initial Public Offering did not bring this variable to a better condition or better level in financial performance.

Non Performing Loan ratio also showed a significant change based on data recorded on the annual report of Bank Central Asia, Tbk. In December 1998, data record Non Performing Loan ratio was at level 84.49% and in the next year, Loan to Deposit ratio decreased to level 8.92% after bank recapitalization policy issued by Central Bank of Indonesia. In 2001, after Initial Public Offering a year before, the percentage of Loan to Deposit Ratio slope to level 3.22% and still decreased in 2002 at level 3.15%. It met the standard set by Central Bank of Indonesia that stated the Non Performing Loan ratio should below than 5%.

Net Interest Margin Ratio showed a significant change based on data recorded on the annual report of Bank Central Asia, Tbk. In 1998, data record Net Interest Margin ratio was at level -22.84% and in the next year, Net Interest Margin ratio increased to level -6.60% after bank recapitalization policy issued by Central Bank of Indonesia. In 2001, after Initial Public Offering a year before, the percentage of Loan to Deposit Ratio escalated at level 5.65% and still increased in 2002 at level 5.77%. Although it was not meet the standard that stated Net Interest Margin ratio should more than or above 7%, Net Interest Margin Ratio at that time was the highest level after Initial Public Offering took place in May 2000.

Based on the result or the data from the financial ratio, the percentage of Return on Asset from year 1998 to 1999 as the year after Initial Public Offering with year 2001 to 2002, there was an increasing level of Return on Asset. Return on Asset in 1998 was -39.82% and increased in 1999 as much as 0.80%. In 2001 the percentage still escalates to 3.50% and decreased in 2002 at level 3.18%. Year 2001 was the highest percentage of Return on Asset that ever record in last five years. The percentage before and after the Initial Public Offering shows good the condition and the ratio meet the standard as regulated as much as above than 1.5%.

The percentage of Return on Equity also had the good result after the Initial Public Offering took place. The level of Return on Equity met the standard, as much as regulated above 15%. The Return on Equity in year 1998 to 1999 was stated as not meaningful, and after the Initial Public Offering in 2000, the percentage of Return on Equity increased to 38.32%, and also that was the highest level after Initial Public Offering took place. In next year 2002, the Return on Equity ratio was decreased to 35.50% but it was still met the standard set by Central Bank of Indonesia that stated the Return on Equity ratio should above than 15%.

The percentage of Operating Expense to Operating Income show a good result after the Initial Public Offering took place even it still didn't meet the standard that stated the ratio should below than 50 %. The ratio in 1998 to 1999 was stated as not meaningful, and after the Initial Public Offering in 2000, the percentage of Operating Expense to Operating Income slope to 78.40 %. In next year 2002, the Operating Expense to Operating Income was decrease to 77.69 % and still not met the standard set by Central Bank of Indonesia that stated the Operating Expense to Operating Income ratio should below than 50 %. Even it is not met the standard yet, it is a good result based on the progress year to year after the Initial Public Offering took place in May 2000.

The result of Loan to Deposit Ratio showed a significant change based on data recorded on the annual report of Bank Central Asia, Tbk. In 1998, data record Loan to Deposit ratio was at level 86.72 % and in the next year, Loan to Deposit ratio decreased to level 4.72 % after bank recapitalization policy issued by Central Bank of Indonesia. In 2001, after Initial Public Offering a year before, the percentage of Loan to Deposit Ratio escalated at level 16.06 % and still increased in 2002 at level 20.44 %. Although it was not meet the standard that stated Loan Deposit Ratio should around 85 %- 110 %, Loan to Deposit Ratio at that time was the highest level after Initial Public Offering took place in May 2000.

Paired Sample

Based on the result of Paired Sample Analysis, the condition of financial performance showed the good changes that describe in the significant in 0.041. This number told the significant effect to the financial performance of Bank Central Asia, Tbk. before and after Initial Public Offering. The Initial Public Offering brought the condition of financial performance became better than before IPO.

Table 1. Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before IPO	7.7843	7	27.25818	10.30262
	After IPO	40.6914	7	16.54633	6.25392

Source: Data Processed, 2013

Table 1 shows the mean before IPO is 7.7843 with standard deviation 27.25818 and standard error mean 10.30262, whereas the result after IPO mean is 40.6914 with standard deviation 16.54633 and standard error mean is 6.25392.

Table 2. Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95 % Confidence Interval of the Difference Lower	Upper			
Pair 1 Before IPO - After IPO	-3.29071E1	33.67759	12.72893	-64.05372	-1.76057	-2.585	6	.041

Source: Data Processed, 2013

Table 2 shows the Initial Public Offering of Bank Central Asia, Tbk. gives a significant differences to its financial performance as showed in significant (2-tailed) as much as 0.041. The result of significant (2-tailed) is under 0.05 and it is showed the significant result. Also from the paired sample test gets mean -3.29071E1, standard deviation 33.67759, standard error mean 12.72893, lower of 95 % confidence interval of the difference -64.05372, upper of 95 % confidence interval of the difference -1.76057, score of t is -2.585, and df is 6.

Discussion

Central Bank of Indonesia has set a regulation in order to measure a bank is in good condition or not. The regulations set by the central bank of Indonesia, such as the regulation in standard of Capital Adequacy Ratio, Non Performing Loan, Net Interest Margin, Return on Asset, Return on Equity, Operating Expense to Operating Income and Loan to Deposit Ratio have become the main factors to determine the condition of the bank itself.

The seven main indicators as the part of CAMEL were used by this research to evaluate the performance of Bank Central Asia, Tbk. pre and post Initial Public Offering. The seven main indicators also become the seven main independent variables. Those variables also should meet the standard that already regulated by the central bank as the bank that manage the other banks. The main seven variables are, Capital Adequacy Ratio as much as above 8 %, Non Performing Loan (NPL) as much as below than 5 %, Net Interest Margin as much as above than 7 %, Return on Asset (ROA) that was recommended by the central bank as much as above than 1.5 %, Return on Equity (ROE) as much as above than 15 %, Operating Expense to Operating Income as much as below than 50 % and Loan to Deposit Ratio (LDR) as much as between 85 % to 110 %. Those are the main variables that were used to evaluate the performance of the financial performance.

The seven main factors or variables had each main standard as regulated by the central bank, in this case the Central Bank of Indonesia. Many factors that meet the standard reflect the healthier or good performance of the bank performance, and vice versa when many factors that cannot meet the standard that means the performance is not good. These variables as part of CAMEL were used widely to evaluate bank condition all over the world. The CAMEL system is used to assigns a numerical rating to a depository institution based on examiner judgment regarding its capital adequacy, asset condition, management quality, earnings record, and liquidity position.

Table 3. Average Pre and Post Initial Public Offering

Ratio	Pre IPO	Post IPO	Central Bank
CAR	-3.7 %	32.41 %	> 8 %
NPL	46.70 %	3.18 %	< 5 %
NIM	-14.72 %	5.71 %	> 7 %
ROA	-19.51 %	3.34 %	> 1.5 %
ROE	n. m	36.91 %	> 15 %
OEOI	n. m	78.04 %	< 50 %
LDR	45.72 %	18.25 %	85 %- 110 %

Source: Data Processed, 2013

The average pre and post Initial Public Offering of Bank Central Asia, Tbk. after the IPO that showed on the table above, the bank in this case the financial performance as the main factor to determine the condition of bank became better than before the IPO. The period of pre IPO is 1998 to 1999 and after IPO in 2001 to 2002. The average percentage of every variable that meets the standard showed more in the period after the IPO. The percentage of Capital Adequacy Ratio, Non Performing Loan, Net Interest Margin, Return on Asset, Return on Equity, Operating Expense to Operating Income and Loan to Deposit Ratio were better after the IPO. There are only one variable that showed negative after the IPO, which is Loan to Deposit Ratio.

The Initial Public Offering is the alternative that can be taken by any company, in this context is financial company that is Bank Central Asia, Tbk. to help in facing the tighter and harder competition environment that also affected by the external factor such as the global financial crisis.

CONCLUSION AND RECOMMENDATION

Conclusion

The conclusion of this research, the Initial Public Offering of Bank Central Asia, Tbk. gives a significant difference of company financial performance. The financial performance of Bank Central Asia, Tbk. from the descriptive analysis and paired sample analysis show the financial performance change to better condition, such as the better level or percentage of financial ratio that meet or better than the standard as regulated central bank.

This condition also helps the bank to compete with the other competitors, especially help the bank to face harder condition of economic that is caused by the global financial crisis, that make some company collapse. The Initial Public Offering led Bank Central Asia, Tbk. become bigger in capital and also increases their performance in financial sector.

Recommendation

Bank Central Asia, Tbk. already proved their action that takes IPO to make a competitive bank but also with better performance. Many companies especially bank also take such this action but some of them fail to get their main purpose of IPO, which is to make a competitive bank and better performance. The main point of IPO is not just gain more capital for bank to make a bank more powerful and competitive, but also it must followed by the better financial performance and management to achieve the goal.

Facing nowadays economic environment that is identical with the global financial crisis, the Initial Public Offering could be a solution or alternative for banking industry. The Initial Public Offering help the bank to increase the Capital that can be used for banks expansion and lead to higher investment followed by high growth opportunities for the bank itself.

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